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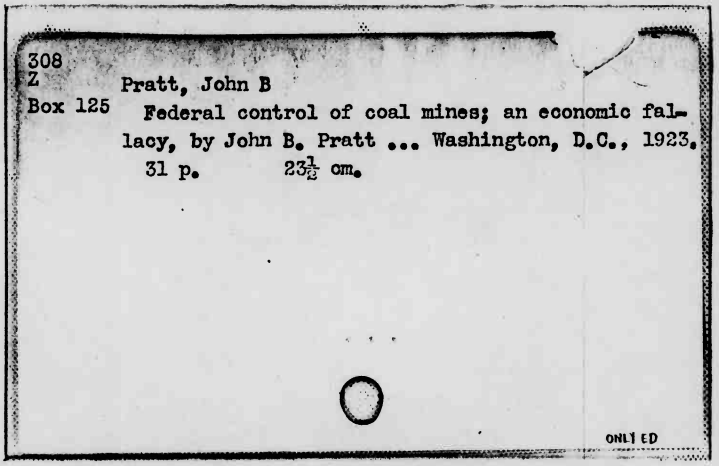
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Federal Control Of Coal Mines An Economic Fallacy

By JOHN B. PRATT
Editor Coal Review

Washington, D. C., May, 1923

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Foreword

IN this discussion the impracticability of the theory of Government ownership or control of the coal mines of the country is considered, not from the viewpoint of the coal industry itself, but that of the public.

In a recent symposium of editorial comment of leading newspapers of the country, published in Coal Review (January 24, 1923), the preponderance of opinion was that Government control, or nationalization, of the coal mines would be destructive of the public interest.

Generally, the newspapers pointed to the competition which now exists in the coal industry—notably the bituminous—as an advantage to the public, as against the non-competitive condition which would obtain if the Government were to run the mines.

In this pamphlet, aside from the writer's discussion, will be found comment by men nationally known who, having analyzed the coal problem, array themselves aggressively against any move toward Government ownership or control.

Fallacy of Federal Control of Coal Mines

By JOHN B. PRATT,
Editor Coal Review

FEDERAL operation of the coal mines of the country would be an economic mistake. It would throw under Government control and regulation an industry that of its inherent nature is competitive and the operation of which, from the public viewpoint, is most advantageously carried on through competitive methods.

Mining as an investment is a hazardous undertaking and one in which the investor puts his money at great risk. It is an industry in which fortunes easily may be sunk in enterprises that are distinctly uncertain.

Because of its vast, complex nature, with bituminous mines spread variously through 30 states out of the 48 in the Union and with anthracite mines running thickly through eastern Pennsylvania, the coal mining industry is one which the Government would find it utterly impracticable to operate, either under a system of ownership or of direct control. *Approximately* 7,000 *individual coal producers or companies, with some* 10,000 *mines, are engaged in the bituminous fields alone.* They employ over 600,000 miners each year. The yearly output runs from 450,000,000 to 550,000,000 tons, according to the nation's demand.

Approximately 200 operating companies are engaged in the anthracite mines, which turn out from 90,000,000 to 100,000,000 tons a year and employ about 150,000 men.

Federal ownership or control would destroy competition among these widely scattered mines. It would throw upon the Government the handling of intricate labor problems involving the fixing of wages to meet the perpetually increasing demands of the miners. It would mean the fixing of mine prices for coal, based not upon competitive conditions but monopoly.

The nation's experience in Government control of the railroads and ships during the war sufficiently indicates the difficulties of practical management that would ensue, the extravagances and inefficiencies that would develop.

To launch the Government in the business of running the country's coal mines would mean but to drive an opening wedge for attempts eventually to take over other forms of private enterprise. The whole economic system of the country would be threatened. In short, it would mean *the abrupt substitution of Government monopoly for private initiative.*

From every public viewpoint it would be a fatal venture.

The Bituminous Industry

IN this discussion the writer will confine himself to the bituminous industry, the product of which is used by the greater part of the nation's railroad, public utility and manufacturing activities. It is essentially the fuel of industry, while at the same time providing, in the Middle West, the South and the far West, the fuel for heating the home.

To properly visualize the bituminous coal mining industry, one must understand its diversity. It is not an industry, such as wheat growing, for instance, in which the methods of planting, harvesting and threshing are virtually the same wherever the product is grown. Bituminous coal is found in the ground at different depths, and in widely different seams. In some fields there are rich, thick seams of pure coal, running for considerable distances underground and relatively easy to mine. In other fields, scattered throughout the various states, there are thin veins of coal interspersed with strata of rock or slate, extremely difficult to mine. No single standard can be applied to the mining of coal. The means to be employed differ according to the variance in quality and quantity of the deposit.

At the outset of his venture an investor in a coal mining property must buy or lease the coal land, depending in area upon the size of his operation, some of which land may afterward turn out to be unworkable. He must sink his money in miles of underground workings and there install expensive machinery. All of this investment is subject to rapid deterioration or absolute destruction by explosions, fires, falls of rock, sulphurous mine water and other physical conditions. At any time the investor may encounter irregularities in the coal deposits which will run his mining costs up to prohibitive figures.

These risks and dangers are ones which an economic government, seeking to serve the public interest, logically could not be expected to assume. They are speculative risks that at once must raise in the minds of thinking people a grave doubt as to the wisdom of Government operation of any such venture. They are such risks as can be undertaken only by private capital, with a sublime optimism and an undaunted faith in the future.

Before the war, few bituminous coal mining properties yielded anything like a fair return on the invested capital. Hundreds of coal mine investors lost heavily. Today the average yield upon invested coal mining capital for the larger bituminous companies is *seldom larger than the legal rate of interest on borrowed money.* Many mining operations have yielded far less than that; some of them have managed only to pull out just ahead of the debit column. In the years 1921 and 1922 many bituminous mine operators ran into a severe loss. This uninspiring record, of itself, with the severe competitive conditions that exist and the low prices which normally prevail for bituminous coal at the mine, does not argue for governmental operation or ownership of the mines.

Hazard of Coal Mining

THE hazard of coal mining, whether as a governmental or private enterprise, has been impressively depicted by L. E. Graton, Chief of the Mineral Division, Internal Revenue Bureau, Treasury Department, and an expert in mining. Speaking before the American Mining and Metallurgical Engineers in Chicago in September, 1919, Mr. Graton emphasized the point that the mining industry involves "different principles," and is upon a different basis than other forms of enterprise or investment.

"Two essential factors serve to distinguish the economics of mining from the economics of other industries," said Mr. Graton; "first, the much greater risk generally involved, and,

second, the fact that the life of the enterprise is fixed by conditions over which those engaged in it have but little control.

"If the hazards of mining could be brought down to the average level of other industrial undertakings and if the life of mines could be maintained indefinitely by application of a good average degree of intelligence and effort, mining would take its place on the same plane with the manufacture of clothing or the growing of wheat or the running of a hotel. As a matter of fact, however, neither of these things can be brought about; in consequence it is necessary to consider mining as something different from a business in the ordinary sense and in a class apart from most other undertakings. *For the mine operator not only shares the risks common to other types of enterprise, such as the uncertainties of labor and the fluctuations of market, but he has in addition to bear certain unique risks peculiar alone to mining and equaled in magnitude in few if any other industries.*

"In mining the raw material represents the chief investment, and the raw material is the ore. In general the success of the mining enterprise depends primarily on what nature has put into the ground. Over that no man has control and, ordinarily, no one may know what or how much until he spends much money to find out. And if one company's operations demonstrate that, in a given tract of ground, nature was not sufficiently generous to give man a profit, it would be difficult to persuade anyone else to purchase the property—the value is next to nothing.

"The immense majority of mining ventures are failures. A multitude of disappointments is relieved by occasional success. Under such conditions, a high return to the few fortunate ventures does not constitute a true surplus, and must be accepted without prejudice as a necessary and legitimate stimulus to efforts that inure to the benefit of society."

Expense of Acquiring Mines

FROM the viewpoint of the cost to the Government, the acquisition of the country's mines is a formidable problem and one with which the public should be familiar before being misled into any fantastic scheme of nationalization. The conservatively estimated investment value of bituminous coal properties under development today is approximately $2,000,000,000 (U. S. Census Bureau report, 1921), while the investment value of the anthracite properties now under operation is approximately $1,000,000,000. If the Government essayed to take over this property it would naturally be obligated to pay the mine owners a reasonable compensation for the property taken.

In the end it is estimated conservatively that it would cost the Government anywhere from approximately $3,000,000,000 to $4,500,000,000 to take over the country's coal mines as they exist today, making allowance for good will and other vested rights. And that would not encompass the aggregate the Government would have to pay, for there are vast undeveloped coal lands to be considered, lands that are now in other hands than those of operators, where coal deposits lie known and unknown, explored and unexplored, beneath barren wastes or cultivated fields. From time to time in the future as these deposits were uncovered the Government would have to take them over, reimbursing the owners.

In any serious consideration of the proposal to have the Government buy up the coal mining properties, the uppermost thought, in fact the only one, must be as to the actual benefit to be derived by the public. Coal would not be any more plentiful under Government ownership. There are sufficient coal deposits, it has been calculated—we are speaking of the *bituminous* product—to last some 7,000 years. There would be no more ease in getting coal out of the mines, for that is entirely a matter of men and machinery.

The bituminous mines in operation today, it has been estimated, have a potential annual output of more than 700,000,000 tons, which is at least 150,000,000 beyond the high present average demand of the country. The highest output which the bituminous mines have yet been called upon to produce has been 579,386,000 tons, in 1918.

Let it be understood that ample output of coal depends upon two things—

(1) *The miners remaining at work.*

(2) *Adequate railroad facilities with which to haul the product from the mines to the market.*

Under private ownership miners quit work on strikes for higher wages, regardless of written contracts with their employers.

Under Government ownership it is not conceivable that there would be any abandonment by the miners of the strike weapon. The railroad employes, *under Government control of the roads,* during the war threatened a nation-wide strike for higher wages and got them. The miners openly assert, in public utterances, and they are on record before the United States Coal Commission as insisting, that they never will relinquish the right to strike. So there would be the same dislocations of mining operation as under private ownership.

Under Government ownership of the coal mines there would be no more adequate transportation facilities than under private operation. The transportation problem in coal as well as all other commodities is one for the railroads to handle. Whatever governmental intervention may be required at any time to make transportation service at the mines more effective is already in the hands of the Interstate Commerce Commission.

Price of Coal at Mines

GOVERNMENT operation of the mines, therefore, would be of no advantage to the public from the viewpoint of ample coal supply. As to coal prices at the mines, far from Federal ownership making the product cheaper, the tendency would be directly the other way. Under Government control, with 10,000 or more mines to operate and some 750,000 or more employes to deal with in their operation—this including the anthracite industry—the country's coal mines would develop into a ponderous machine which would churn out tons of coal without the incentive of competition and therefore without the benefit to the public of low, competitive mine prices.

In this connection it must be remembered that under competitive conditions as they exist in the bituminous industry *the United States has had cheaper soft coal than any other country in the world.* While its rates of wages for miners are higher, its coal sells at the mines far under that of other coal-producing nations.

The United Mine Workers of America, whose attitude toward the operators has been a notoriously hostile one, as is evidenced in their frequent public attacks, have themselves recognized the fact that the American public

has had its coal, on the average, at low prices at the mines.

As a witness before the Bituminous Coal Commission appointed by President Wilson, testifying in February, 1920, William Green, Secretary-Treasurer of the United Mine Workers of America, said:

"The trouble has been in the mining of bituminous coal, that everyone, even the operators themselves, have regarded it as a cheap industry. They have felt that they must produce coal at a ridiculously low figure and sell it at a ridiculously low figure, so that the mines may be kept in operation. The selling price of coal (at the mine) now runs from $2.35 to $2.45.

"In my judgment, the American public and the coal consuming public must be educated to the fact that this in itself is a very small price for bituminous coal at the mines, and that in all probability, as the years go by, in order to conserve the visible coal supply, the selling price of coal will increase."

Evidence As To Prices and Profits Before Congress

An insight into the generally low price of bituminous coal at the mines, together with the slight average profit per ton made by the operators was offered in evidence put in before the Committee on Labor of the House of Representatives by J. D. A. Morrow, former vice-president of the National Coal Association in April, 1921. This will be found,

Average Mine Price And Margin Of Profit—Bituminous Coal

	Number of Operating Companies Reporting	Production (Net Tons) Of Companies Reporting	Average price Per net ton	Average cost Per net ton	Margin per Net ton (a)
1918 (b)	2,483	496,960,342	$2.61	$2.15	.46
1919 (c)	548	128,140,333	2.56	2.38	.18
1920 (d)	399	117,251,310	3.58	2.87	.71
1921 (c)	654	133,398,508	3.04	2.94	.10

(a) Margin is not the same as profit. From the margin must be paid all Federal income and excess profits taxes and interest on bonds and borrowed money.
(b) From reports of U. S. Fuel Administration.
(c) From reports collected from its members by the National Coal Association. Selling expense is included in cost.
(d) A year of severe shortage, induced by the miners' strike of the preceding winter and the railroad switchmen's strike.

summarized, in a table at the bottom of the preceding page. The figures submitted by Mr. Morrow were taken, for the year 1918, from data of the U. S. Fuel Administration and, for 1919, 1920 and 1921 from data collected by the National Coal Association from typical, representative mines in its membership, the authenticity of which was guaranteed.

From this evidence it was shown that the average selling price of bituminous coal at the mines of the companies reporting was $2.61 in 1918; $2.56 in 1919; $3.58 in 1920, and $3.04 in 1921. The average margin of profit ran from 46 cents a ton in 1918 to 18 cents in 1919, 71 cents in 1920, and 10 cents in 1921. *This margin of profit, it must be understood, does not represent the actual net profit of the operator, for out of it must come charges for Federal income and excess profits taxes and interest on bonds and borrowed money.*

The actual profit, therefore, in 1918 and 1920—the latter a year of acute shortage, induced by strikes—was considerably under the quoted figures for "margin," while in 1919 and 1921 the profit entirely disappeared in many mining operations and was almost negligible in others.

Before the war, *with lower wage scales,* average prices of coal at the bituminous mines ran far under those which prevailed after 1916. *Every wage advance naturally increases the cost of production.*

Thus, in 1913, the average bituminous mine price *under the then prevailing wage scale* was $1.18; in 1914, $1.17; in 1915, $1.13, and in 1916, $1.32, according to figures of the Geological Survey. In 1917 there were two sharp wage advances, one in April and another in November, which, together, according to the estimate of Mr. Morrow, increased the labor cost approximately 75 cents a ton.

In addition to the advanced labor cost there was an increase of approximately 100 per cent. in the cost of supplies used in mining.

The average selling price at the mines in 1917, according to the Geological Survey, was $2.26 a ton. In 1918, with the average mine selling price of $2.61 a ton, Dr. Garfield estimated that the actual profit to the operators was 16 cents a ton.

The wage advance of approximately 27 percent granted the United Mine Workers by the Bituminous Coal Commission in 1920, was at once reflected in a further added cost of production. That wage scale, which has since been increased to the day laborers, is still in effect. [See table at bottom of this page.]

With the bituminous mines of the country in severe competition, as they have always been, with individual owners in various fields selling one against another, the public cannot fail to have its coal at the same relatively low prices which, despite the wage increases, have generally prevailed at the mines.

Experience During the War

JUDGING from the experience of the Government in operating railroads and ships during the war, it is not hard to imagine what would happen to the coal mines of the

Miners' Wage Scale and Items Making Up Cost of Coal at Mines

Under the present wage scale in effect in the union bituminous mines the day laborer receives $7.50 per day. The pick and machine miners average anywhere from $8 to $12 and $14 and even more a day. It is not uncommon for a skilled machine miner to earn as high as $20 a day.

An idea of the various detailed items which go to make up the cost of coal at the bituminous mines was given in evidence of Mr. Morrow before the House Committee. Taking the year 1921, with the average cost of $2.94 per ton at the mines, the witness analyzed the different items of cost as follows:

	Cost per ton	Per cent. of cost per ton
Labor	$1.992	67.77
Supplies	.370	12.57
Other Operating Charges	.318	10.82
General Expense	.174	5.91
Selling Expense	.086	2.93
Total	$2.94	100.00

From this table it appears that *labor cost alone amounted to 67.8 per cent.*; the cost of supplies, 12.6 per cent.; royalties, depletion, depreciation, insurance and taxes, not including Federal income and excess profits taxes, 10.8 per cent.; and general overhead expense, including the salaries of officers and office employes and legal expense, 5.9 per cent., while selling expense was 2.9 per cent.

country under Federal control. The inefficiency of operation of ships by the United States Shipping Board was unhesitatingly admitted in an address recently by Edward N. Hurley, who was chairman of the Board during the war period. [Mr. Hurley's comment will be found elsewhere in this pamphlet.]

The inefficiency of the railroads under Government control in the same war period cannot yet have been forgotten by the public. During 1918 and 1919, it will be recalled, passenger and freight transportation services were badly demoralized and rates for transportation were greatly advanced everywhere.

While the public was under this disadvantage from disrupted, inefficient and expensive transportation service during the time the Government ran the railroad systems, the effect of Government administration of the carriers was as keenly felt after they had been returned to their owners after the war.

To maintain their freight car equipment, including open top cars for coal mine service, the railroads, before the Government took them over, had installed on an average of about 125,000 cars a year. During the years of 1918 and 1919, when the Government operated the roads, although the need for all freight cars had increased, the total freight car construction of all types had been but 141,268 cars, or an average of 70,634 for each year.* This left the railroads with a material shortage of freight equipment with which to handle the enormous haulage of 1920.

It is well known how industry suffered that year because of the short-sighted building program of the Government while it operated the roads.

The chaotic situation that developed was particularly difficult for the railroads to handle, and one that they could in no way have guarded against. They had had but two months' notice from the Government of the intention to restore the roads to private control. The carriers' executives, in fact, were informed late in December, 1919, that the

*From data prepared by the Bureau of Railway Economics, American Railway Association.

roads would be returned to them on March 1 and the approximately sixty days of intervening time was not enough to enable them to take any effective steps toward relieving the car shortage.

They needed cars, many thousands of them, and it took months to build them. In fact the shortage in cars has hardly been made up at this time.

Not alone did Government control of the railroads result in wretched service to the public and in disastrous depletion of the necessary railroad equipment but *the experiment from the viewpoint of expense to the taxpayers was decided a costly one.* From reports filed with Congress by Director General of Railroads Davis on February 3, 1923, it appears that *the public was called upon to pay about* $1,800,000,000 *for this experience.* Traffic World, regarded as a reliable authority in railroad matters, has calculated that the figure will more nearly approach $2,000,000,000 when all of the deterioration and other claims have finally been adjusted by the Government.

With the indifference displayed by the Government in the imperative matter of increasing the number of open top cars required to haul coal to the consuming public, it may be assumed that other vitally important phases of the coal industry, if put under Government bureaucratic control, would suffer similar neglect.

Government officials scattered throughout the country in coal jobs would hardly be expected to show the same zest in serving the public with coal as would mine operators and others in the industry whose very livelihood depends upon the efficiency of their activity.

As to Legislation

"LESS Government in business and more business in Government," was the pronouncement of President Harding in his inaugural address March 4, 1921.

Already there are upon the statute books enough laws to govern distribution of coal. No further Federal regulation is needed to

make distribution more effective. Under the Esch-Cummins Law, the transportation measure passed in 1920, ample authority was given the Interstate Commerce Commission to provide for the apportionment of coal cars at the mines in times of coal shortage emergencies. Under that law preferential shipments may be made to communities in dire need of coal. That law was put to an extreme test during the bituminous coal shortage of 1920.

As the country knows, a grave shortage in soft coal threatened the nation early that year. Through the efforts of the National Coal Association, which is composed of *bituminous* operators of the various producing fields, and railroad systems headed by Daniel Willard, as Chairman of the Advisory Committee of the Association of Railway Executives, priority orders were put into effect by the Interstate Commerce Commission, under authority given by the Esch-Cummins Law, by which this shortage crisis was overcome and the country saved from a soft coal famine during the winter.

No greater emergency ever faced the operators in their efforts to get coal to the public than that of the year 1920. And in no better way could the efficacy of the power to aid distribution of coal under the Esch-Cummins Law be tested.

Coal production, aside from periodical strikes at the mines, is a matter of car supply. With adequate car supply the country's mines are able to turn out all the coal the country requires. An adequate supply of coal means active, natural competition in all coal markets, and this means low prices to the consumer.

It is all a matter of the operation of the law of supply and demand. And that problem is solved through the simple means of adequate transportation facilities, assuming at the same time that the miners remain at the work of digging coal and the consumers of coal do their part in ordering their supply reasonably in advance of the time when they require it.

It is not, therefore, that the country needs any further governmental authority to expedite distribution of coal.

Law of Supply and Demand

WHAT, then, is the thing to do with the coal industry? There is but one answer, if the real interests of the public are to be considered, and that is to leave the industry in the hands of private ownership or control and allow the inexorable forces of the law of supply and demand to have full play.

If the natural economic laws are allowed to operate, unrestrained by artificial interference and miners are protected who desire to work, there will always be a steady flow of coal to the public, with prices regulated by healthy competition. The history of high price junctures in the bituminous industry shows that only in periods of severe disruption, caused by arbitrary strikes or inadequacy of railroad transportation, have high prices on coal from the mines crept in. And in these crises it has been the irresponsible speculator in coal bought from the mines at low prices or operators of the so-called "snowbird" mines*—whose output has no market excepting in an emergency—who have been chiefly to blame for the trouble.

What happened during the 1920 soft coal shortage is typical of any emergency in which forces entirely beyond the control of the operators intervene to upset the working out of the law of supply and demand. In a letter to Senator Walter E. Edge, written in December, 1920, Dr. George Otis Smith, Director of the Geological Survey and a member of the United States Coal Commission, appointed by President Harding, in analyzing the shortage situation gave as the underlying cause what he characterized as "the most acute car shortage in history." After telling

*The so-called "snow-bird" mine is one which is located at some considerable distance from a railroad line, and which, under ordinary, normal conditions, does not operate, since it cannot compete in the low-price market. In times of shortage the "snow-bird" mines will open up—and there are hundreds of them in various fields—getting miners at any extravagant wage that it may be necessary to pay, cart the coal in wagons to the railroad, usually a mile or more from the mine, and sell the product in the market at the highest figure that can be obtained.

of the general strike of miners in the winter of 1919, against the direct appeal to the miners' loyalty by the President of the United States, Dr. Smith alluded to the outlaw switchmen's strike the following spring and the shortage of cars at the mines which developed as a result.

This situation, Dr. Smith went on to say, "attracted swarms of speculators, a flock of 'snowbird' jobbers and operators with no permanent capital, no past losses to recoup and no sense of responsibility for the good name of the industry."

Dr. Smith further wrote:

"Only a portion of the coal moving at the time was sold at these (high) prices. The bulk of it remained as before, under contract, at prices negotiated before the shortage was foreseen."

The Survey Director was explicit in saying that the "dominant cause limiting output" during the period of the 1920 shortage, which extended from April until November, was inadequate transportation.

In his letter to the Senator, Dr. Smith wrote:

"Having determined that lack of transportation was the limiting factor throughout this period, we must bear in mind that the carriers were laboring under enormous difficulties over which they had no control. It was not their fault that the miners had struck, and to expect them to provide cars to make up overnight the 26,000,000 tons lost through that strike was to expect the impossible."

Here we had, in the 1920 situation, therefore, the two chief elements which disturb the coal industry and elements which Government control or ownership could not eliminate:

1. The strike.
2. Transportation deficiency.

Let the miners remain at work and let the great consuming public order its coal in the early spring and summer months, so the railroads may spread the haul fairly evenly throughout the year, and no coal supply problem exists.

It is nothing else than the effective operation of the simple law of supply and demand and it applies to all business, to all industry alike.

National Leaders On Federal Control

"Socialistic Madness" To Put Coal Mines Under Government Control Says Senator Reed

A WARNING against Government interference in the coal industry was sounded in the United States Senate in June, 1921, by Senator James A. Reed of Missouri, during a discussion of the then pending bills aimed at "stabilization" of the industry. Senator Reed, as a member of the Committee on Manufactures, had sat through hearings extending over a period of many weeks during which the bituminous industry was exhaustively investigated. At the outset of the hearings the Senator remarked that he was of an open mind and that he wanted to ascertain the "exact truth."

In his address in the Senate the Senator, speaking, as he explained, in the light of the facts developed during the investigation, said, among other things:

"There is no question so misunderstood as the coal problem. For years the people have been misled by false statements regarding conditions. Conclusions based upon such statements are necessarily inaccurate.

"For a long time the country has been cursed with a multitude of animated pro bono publicos, who have been going up and down the earth putting forth false information and proposing quack remedies for conditions about which they are themselves grossly ignorant. The misinformation thus given out is naturally credited by the general public and the remedies proposed are usually accepted at their face value without examination. This is particularly true of the entire coal question.

"(1) It is asserted that our coal deposits are about to be exhausted, and that consequently the Government must interfere or the United States will soon find itself without coal.

"The complete refutation of the fallacy is found in the evidence recently taken before the Senate Committee on Manufactures. At that hearing governmental experts, great coal operators, coal dealers and labor leaders all

testified. The undisputed testimony shows that there are already discovered in the continental United States bituminous coal deposits which reach the stupendous aggregate of between three and four trillion tons. At the present rate of consumption it will therefore take approximately 6,000 years to exhaust the known supply.

"(2) It is asserted that the great coal producers are, and have been for years, combined together to charge extortionate prices for coal when produced at the mouth of the mine. Accordingly it is argued that the Government must take possession or control over the mines in order to protect the people from the machinations of these evil conspirators.

"Both the statement of fact and the conclusion based thereon are refuted by the testimony taken by the committee. At the end of the exhaustive hearings not a scrap of evidence had been given tending to show a combination between the great mine operators.

"We have, then, a condition which only demands that the coal shall be taken from the ground and delivered to the people. If that is done at a fair and reasonable price, the problem is solved. * * *

"It seems to me that if we will only permit economic laws to operate a little while all of these questions will solve themselves.

"As I have sat in this Chamber in the last few weeks and witnessed the procession of bills that have proposed to regulate the business of 110,000,000 people from Washington I have been appalled. There seems to be complete forgetfulness of the fact that there are certain great economic laws which, if they are allowed to operate, will bring us back to a normal condition, and that every obstruction to the operation of those laws will continue the distressful conditions which grew out of the war."

After touching upon the effect of Government operation of the railroads during the war, Senator Reed proceeded:

"Let me tell my friends something about this question of regulation. Let me tell it to them in language so plain it may seem brutal. Continue this system of regulation a few months longer and you will have established the fundamental principle of socialism in this

country. It has been proposed here to control coal because it is a necessity of life, a great primal necessity. I grant it is a great primal necessity. But if we are going to embark upon the policy of regulating everything that is a necessity because it is a necessity, where will we stop?

"Coal is no more a primal necessity than clothing. Our ancestors wore clothes of some kind for thousands of years before they knew anything about the burning of coal. Coal is no more a primal necessity than steel or iron, because we must have the steel or iron to produce the coal, just as we must have the coal to produce the steel or iron. Destroy the steel industry, destroy the knowledge of how to produce iron and we would go back to barbarism. There would be no plow to turn the soil. There would be no reaper to harvest the crop. There would be no railroads to carry their mighty burdens across the continent. There would be no great steamships plowing the ocean. There would be no massive buildings lifting their roofs almost to the very skies. It would be barbarism.

"If we should regulate coal, clearly we should regulate steel and iron; and if steel and iron, why not copper? Why not take over and own the copper mines, because copper is also a great necessity?

"After the minerals that God Almighty made, then why not take under the beneficent protection of the Government the things which men produce? Why not sheep that men raise and that pasture on a thousand hills? Why not go into the sheep business, because the meat and the fleece of sheep are great necessities?

"Why not take over the cotton business, because cotton is a great necessity? Why not insist that the Government shall control that, for we could not get along today under modern conditions without the wonderful crop of cotton that is raised in the Southern States. Shoes are a necessity. We could by the same process of reasoning take them over. If we enter upon this scheme, if we permit the camel to put its socialistic nose into the tent, its gross body will follow, and it ought to follow. We have no more right to seize one private industry than we have to seize all private industries.

"We are embarking on a career of socialistic madness."

Half of Normal Efficiency Lost Under Government Control Says Edward N. Hurley

NO ONE is better qualified to express an independent opinion on the efficiency of Government operation of private enterprise than Edward N. Hurley, of Chicago, chairman of the United States Shipping Board during the war. In an address before the Indiana Public Utility Association at Indianapolis in January, 1923, Mr. Hurley declared that 50 per cent of normal efficiency is lost under Federal operation.

"Let us examine the case for public ownership," said Mr. Hurley, speaking generally on the proposal. "What are the facts? What promise of public benefit is held out by the proposal? What dangers are inherent in it? As one who formerly examined the theory of Government ownership sympathetically, and who later had the opportunity of observing it in practical operation, I believe I am competent to give testimony.

"The Federal Government's ventures into the field of public management of industrial and public service enterprises demonstrated conclusively that *not more than* 50 *per cent personal efficiency can be obtained under such management.* It demonsfrated that not more than 50 per cent of personal interest in the work of the individual can be obtained under this system. I speak advisedly and out of full and intimate knowledge of the facts, and *I do not hesitate to tell you that this average of* 50 *per cent gradually decreases the longer the individual employe continues in industrial service, under public management.*

"The great shipbuilding organization created during the war was not only a gigantic facility for turning out ships to meet the needs of that menacing period, it was a gigantic laboratory for testing the principles of public management.

"When the armistice was signed we had 394,000 employes in American shipyards and a reserve of 250,000 volunteers available. These men, as well as the proprietors and managers of the yards, were an honest, patriotic body of Americans who achieved results that surprised the world. When the first wartime shipyard contracts were placed, the shipbuilders based their estimates on current wage scales. Later wages more than doubled and

the old contracts had to be rewritten to meet the new conditions. When the Government underwrote war wage increases on old contracts as well as new, as was necessary because of the great need for ships, there was an expectation that this would stimulate both managers and workmen in the yards. But the human element had to be counted upon. What happened? The opposite of our expectations. Assumption of responsibility for wage increases was followed by a 25 per cent decrease in efficiency even in that period of patriotic fervor.

"My estimate as to the comparative efficiency under public and private management is not based upon a study of the Federal Government's experience alone, nor yet upon my observation of efficiency standards that prevail in city institutions nor in those operated under state management. The city of Glasgow, Scotland, tried out municipal operation of electric light companies and its experience is worthy of the study of every taxpayer who is inclined to respond to the urgings of the public-ownership enthusiast. The Glasgow Corporation, Electric Light Department, is owned and controlled by the local government of that city. The Clyde Valley Electric Power Company is privately owned and operated. Both supply the same class of customers. During the year ending June 30, 1920, the municipally operated concern produced 148,000,000 kilowatt hours at a loss of 1/6 of a cent per kilowatt hour. The privately owned plant produced 122,000,000 kilowatt hours at a profit of ¼ of a cent per kilowatt hour.

"I have developed this comparison because I have heard the Glasgow Corporation referred to as an example of successful public management of an electric light company. There are not many examples in connection with which such claims for success have been made. Wherever, in Europe, public utilities, such as railroads, lighting plants and street railways, are managed by the Government, they are operated at a loss and the taxpayer meets the deficit. One outstanding exception in the United States commands attention. I refer to the Detroit Street Railway which Senator James Couzens purchased for the city of Detroit while he was mayor. The Detroit Street Railway is now going through the early period of municipal ownership. I believe that under Senator Couzens' management the results in this case will be extraord-

inary because of his executive ability and his business experience in doing big things. But who is to succeed Mr. Couzens and how many men of his ability and experience are available to operate the power plants and street railways of our numberless cities and towns?

"Do not misunderstand me. I do not question the honesty of those who advocate public ownership. But I do disagree with them. I do believe that they lose sight of the human obstacles that prevent efficiency under public management. It narrows down to this: Do we get as good service in city hall as we do in a department store? How long would a department store stay in business with city hall service?"

Resist Encroachment Against Industry Urges Former Manager Of Emergency Fleet Corporation

ANOTHER national figure whose opinion on Government operation may be regarded as practical, and altogether unbiased, is Charles Piez, president of the Link-Belt Company, Chicago, who was vice-president and general manager, during the war, of the Emergency Fleet Corporation. In an address before the Engineers' Society of Western Pennsylvania at Pittsburgh in January, 1923, Mr. Piez urged the country's engineers as a body to study the coal mining problem and align themselves against any tendency toward Government control of the industry. During the course of his remarks Mr. Piez said:

"Organized labor today absolutely controls a very large proportion of the coal production of the country. Nowhere has so complete a monopoly of labor been established and nowhere are the evils of monopoly so well illustrated.

"Our present system of government seems to be based on the theory that the interest of the public is subordinate to the interest of any minority that has organizing ability and solidarity enough to maintain its supremacy, and the miners' union, under its present leadership, is certainly working on that theory.

"*If you want the operators to cure the industry's troubles, put the railroads in position to give the mines an adequate car supply,* and you will get a coal supply at the market

that will give the buyers their inning. Permit consolidation of properties in the same field to reduce overhead burden, and give the fit the chance to survive in the scramble that will follow.

"Free and open competition is after all the best safeguard against inflation of industry in normal times, and the best cure for inflation when unusual economic conditions have brought it about.

"The industry is suffering from the effects of Government control. Don't look for a solution of its problems by extending Government interference.

"Study the subject, and if you find my statement of facts and my conclusions right, then put yourself on guard and resist further Government encroachment on industry."

Railroad Employes' Payroll Increased $2,229,639,957 in One Year During Federal Control Says S. H. Church

THE effect of Federal control of the railroad systems of the country in 1918 and 1919 was characterized as disastrous by Samuel Hayden Church, president of Carnegie Institute, in a recent article in the New York Times in which he analyzed some of the results of Government operation. Mr. Church blamed what he termed the "general condition of financial paralysis" of the railroads, following in the wake of Government control, upon policies of unionization of all railroad labor and standardization of all railroad wages.

"Universal bankruptcy was sure to be the result of such a policy," said Mr. Church. "A few examples concerning the standardization of wages will show the intolerable evils of such a system. All the men who sold tickets were put into one class at a uniform rate of pay. Thus the ticket seller living in a great city like Chicago, Philadelphia or Boston received the same salary as a ticket seller living in a small country town. The city man paid, perhaps, $100 a month for his rent, while the village man had a better house at $20. The city man paid retail prices for everything his family used, while the village man bought direct from the farmers, yet each received $250 a month, leaving the village man (and this is an actual case) 50 per cent. better off in the cost of living. Under any proper scheme of wages each man's pay would

have been adjusted with reference to his surroundings.

"Another case is that of a foreman in a small roundhouse at the end of a branch road, whose normal wage was $90 a month. He had two sons and a daughter, all doing congenial work, and all living together in the family home which they owned without an encumbrance. The foreman's wage under standardization was suddenly increased from $90 to $300 a month, yet the largest shop in the most costly city could pay its foreman no more than that.

"But the most extravagant illustration in all those reckless political methods of Government control which have brought disaster upon the transportation system of the country is found in the case of the unionization and standardization of the maintenance of way forces on the 253,152 miles of our railroad system.

"I have before me a photostat copy of a payroll, dated January 15, 1919, showing this situation on one of the standard railways. The wreck-master on a maintenance of way train at Mahoningtown, Pa., was paid $230 a month. He was not standardized because there were too few of his kind. But the clerk who kept his little book showing material used was standardized and received $228—nearly as much as the wreck-master. The cooks were standardized, so the wreck-master's cook got $284 a month, or $54 more than his boss. But at the time the standardization was adopted it was decided to make the new and higher rates of pay date back some five months, so while the wreck-master got no back pay the cook received a bonus of $291.60.

"We then come to a real and delicious spectacle. The crew of eleven men on this train was composed of certain Italian and other foreign friends who were then temporarily visiting in this country, and they each received $216.35 as their regular pay, and each one was given back pay amounting to $2,542.15. Think of it! Enough to represent the savings of a lifetime, yet the lavish hand of the Government threw into the laps of these men, most of whom came from the floating labor supply, a wholly unnecessary and unjustified bonus amounting in the aggregate to $750,000,000!

"This was the story in every class of railroad labor, *until the aggregated payrolls of*

1919 *showed an increase over* 1915 *of* $2,229,639,957. We can now understand why the crowd gets up on its legs and yells for Government ownership every time the gentleman on the soap box mentions the subject.

"It was this situation which required the managers, when the roads came back, to attempt a partial retrenchment, and their efforts to do this were met with the sympathetic and reciprocal help of the employes in all cases except where the labor dictators, who were not on the payrolls, stepped in and agitated the strikes."

Supreme Court Justice Sutherland Speaking as Private Citizen, Condemns Federal Invasion of Industry

SUPREME Court Justice George Sutherland, in an address before the American Bar Association on September 5, 1917, after his retirement from the United States Senate, from Utah, expressed himself emphatically against Government intrusion in industry. In a report of his address, the New York Times of the following day stated that "Ex-Senator Sutherland condemned over-regulation by the Government of business and individuals." In the course of his address the then ex-Senator said:

"Under our form of Government the will of the people is supreme. We seem to have become intoxicated with plentitude of our own power, or fearful that it will disappear if we do not constantly use it, and, inasmuch as our will can be exercised authoritatively only through some form of law, whenever we become dissatisfied with anything we enact a statute on the subject.

"If, therefore, I were asked to name the characteristic which more than any other distinguishes our present-day political institutions, I am not sure that I should not answer, *'the passion for making laws.'* There are 48 small or moderate-sized legislative bodies in the United States engaged a good deal of the time, and one very large national legislature working overtime at this amiable occupation, their combined output being not far from 15,000 statutes each year. The prevailing obsession seems to be that statutes, like the crops, enrich the country in proportion to their volume. Unfortunately for this notion, however, the average legislator does not always know what he is sowing, and the harvest which frequently results is made up of

strange and unexpected plants whose appearance is as astonishing to the legislator as it is disconcerting to his constituents.

"Not only are the business activities of the country being investigated, supervised, directed, and controlled in such a multitude of ways that the banker, the merchant, and the man of industry generally are afloat upon a sea of uncertainty where, if they succeeded in avoiding the mines of dubious statutes by which they are surrounded, they are in danger of being blown up by an administrative torpedo launched from one of the numerous submarine commissions by which the business waters are everywhere infested, but the Government is invading and is threatening to more seriously invade the market place itself, not as a regulator, but as a participant and competitor.

"We seem to be approaching more and more nearly the point where the old philosophy that whatever can be done by the individual should not be done by the Government, even though it may be well done, is to be abandoned for the new and dangerous doctrine that whatever can be done by the Government, even though it may be badly done, should not be permitted to the individual."

Ex-Senator Howard Sutherland Urges Public To Familiarize Itself With Coal Industry's Problems

URGING a better understanding on the part of the public as to the coal industry, former Senator Howard Sutherland, of West Virginia, in an address in March, 1923, expressed aggressive opposition to the theory of Federal control or nationalization.

"It is my firm conviction that the rigid control or operation of the coal mines of the nation by the Government would, so far from solving the difficulties which have been apparent during the past year or two, only intensify and add to them," said Senator Sutherland.

"It is perhaps fortunate that we need not have very long memories to recall what happended during the great war when there was inaugurated in the coal mining industry a large measure of governmental control through its bureaus. Being in Washington as I was during that period, I came in contact with the various problems and inequalities that were apparent at that time.

"I do not believe that there is any man or set of men who can successfully direct at the seat of government all the various operations necessary to produce and distribute the coal of the nation without working injustice and inequality upon those actually engaged in those processes.

"While I am aware that there is an element among the mine workers who favor the nationalization of the coal industry, I am convinced that upon careful reflection and full discussion of this subject, such an outcome for the industry will be shunned by the workers as they would a pestilence.

"If the Government should operate or even rigidly control the operation of the coal mining industry it would involve inevitably the fixing of the prices at which the coal must be sold at the mine and necessarily the fixing of wages. *The adjustment of differences between one region and another and between one state and another would be a subject so intricate and involved, that from my experience with governmental functioning it would be impossible to reach an equitable basis of operation.*

"Of course, this would involve also the fixing of prices at which the coal must be sold at the various points of delivery. There would be practically one employer only of mine workers, and that would be the Government of the United States. It would devolve upon the Government to keep the processes of production evenly working in order that sufficient coal might at all times be available for all the industries of the country, as well as for the householders.

"If there should be stoppage for any reasons of dissatisfaction with the conditions that existed, the cry of discontent would necessarily be raised against the Government, and in extreme cases it is easily conceivable that coercion might be used to keep up production to the desired limits. This would, of course, involve, unless the Government owned the properties, the fixing of a fair return upon the investment to the operator.

"One of the most popular amusements that has been indulged in in Congress and by the public press and by many of our citizens in the consuming centers has been the baiting of the coal industry. To the greater part of the population the business of mining coal is a deep and dark mystery. They are imbued with the notion that the business is carried

on by a few plutocrats, without conscience, who toil not, neither do they spin, but who enjoy huge profits with a very moderate expenditure of effort. These misconceptions are brought to the attention of the public usually at times of scarcity and consequent high prices, but during all those lean years when the business is done upon a very slender margin and much of the time at an actual loss there is no sympathetic movement on the part of the public to come to the relief of the coal producer and offer him prices that would cover the actual cost of coal.

"It is necessary, therefore, that the great consuming public to whom the coal business is thus a mystery shall be brought by some process of education to a better realization of the unusual hazards attendant upon the production of coal. In this way, we may secure, in addition to that finer and more complete cooperation between the factors of production, a better appreciation and closer cooperation between the producers and the consumers of coal."

Government Would Fail In Effort To Run Mines Says Senator King Deploring Paternalistic Idea

FEDERAL operation of the country's coal mines could only result in failure, in the opinion of Senator William H. King, of Utah, as expressed in an address before the National Retail Coal Merchants' Association at Chicago.

"The tendency today is toward the destruction of the state and the centralization of authority in the hands of the Federal Government," said Senator King. "The public is turning toward the central government for everything. The country is full of hysterical men and women who want the Government to run not only business but every detail of their daily lives. Senators and Congressmen are daily importuned for appropriations to aid the state and individuals in all sorts of enterprises, from building power dams to ridding orchards of pestiferous insects.

"Federal officials are seeking to have the Federal Government control the mines and the smelters and the business interests of the country. The country is filled with half-baked

philosophers and neurotics who seek to cure the country's ills by the Federal touch. They do not realize that paternalism absorbs, engulfs and destroys.

"Government ownership or operation of coal mines can end only in failure. The Government should say to big business, 'Here's a fair field and no favors for any one. Let the best man win.' Business should be allowed to go ahead and develop without being hampered by petty Government intervention."

Miners' Nationalization Scheme Would Throw Coal Industry Into Politics, Says New York Times

IN an editorial comment upon a plan for nationalization of the coal industry as promulgated by one element of the United Mine Workers of America, known as the "Nationalization Research Committee," the New York Times, in January, 1923, remarked that, while the proposal called for thought, it smacked of a political move in the interest of labor. Said the Times:

"The plan itself proposes to take the question into politics. There is a ready-made party in its support numbering the full strength of organized labor, several millions at least.

"In fact, the Research Committee itself lays down the rule that the success of its plan depends upon the complete unionization of every miner. If there are miners outside the United Mine Workers, there will be production of coal on another wage scale and competition in the industry will be preserved. That is fatal to any plan of nationalization of anything.

"*Consumers of coal and producers of coal are likely to think that their interests will be better served by competition than by a monopoly of both labor and capital, regulated by politics,* with such a prodigious temptation to the proletariat to corrupt politics in its interest. How many of the Research Committee could be trusted to vote on any issue regarding their plan, or wages under it, with first thought of public interests? * * *

"Finally, the plan requires only $4,500,000,000. It is not a trifle, but it is the least of the objections to the plan."

Deadly Blight Of Government Control

By HERBERT N. CASSON
*Eminent American and British Writer**

SPEAKING quietly, without rage and prejudice, can anyone tell why it is that Government departments in all countries are slow, wasteful and incompetent?

There must be some basic reason for this, as the individuals in these departments cannot all be inferior to the individuals in private firms.

Almost invariably an able man becomes disabled when he is placed in a Government department.

He becomes timid, procrastinating, noncommittal, evasive and unprofitable. He becomes a mere chattel of routine.

Why is this?

The fact seems to be that man simply cannot be competent in a Government job, for the following reasons:

1. There is not payment by results.

There is no piecework. There is no profit-sharing. A man gets as much for doing badly as he does for doing well.

2. There is no fear of discharge.

A man may be transferred, but as long as his conduct is satisfactory he cannot be discharged for incompetence. Any sort of a fool can hold a job forever in the civil service.

3. There are no profits to be made.

There is no possibility of bankruptcy. If the department doesn't pay—very well. The Treasury has plenty.

4. There is no danger of losing customers.

A Government department does not depend upon its customers, so that it has no incentive to be quick and courteous and obliging.

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5. The main thing is accuracy, not success.

A Government employe has simply nothing to do with success. His aim is to avoid mistakes. The less he does—the fewer mistakes.

6. Time is of no consequence.

As all Government employes are made into clerks they come to have a clerk's disregard of time. To clerks, as to lawyers, a delay is a relief and a comfort—the more the better.

7. The work is impersonal.

There is very little personal responsibility in a Government office. The clerks have arranged a system whereby nobody is to blame, no matter what happens.

8. There is no competition.

A Government department is always a monopoly. If it were not it would soon be thrown aside. It has no competitors to battle with, and it can take its ease and do as it pleases.

9. Routine is put ahead of service.

In Government departments all the workers (if I may use the word) are tied with red tape. They are all the slaves of a system of procedure.

10. There is no enthusiasm.

If a man stays in a Government job long enough he becomes mummified. He loses all the energy and joy of living that are so necessary to efficiency and success.

These are a few of the reasons why nationalization always has failed and always will.

Just put yourself in the place of these poor automats. No matter how able you are, how could you be efficient if you had:

No hope of profits; no fear of failure.

No competitors; no customers.

No reason of hurry; and

No danger of being found out.

Nationalization is not only a destroyer of trade and commerce. It is not only a coral reef built across the harbor of prosperity.

It is worse. It is far worse. It is a destroyer of men. It takes an able man and grinds him down until he is a clerical drudge.

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